



# **UMDONI MUNICIPALITY**

**THE J.E.W.E.L OF THE SOUTH COAST**

## **MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK BUDGET**

**2017/2018 FINANCIAL YEAR**

**TABLED FOR ADOPTION**

**31<sup>ST</sup> MAY 2017**





## UMDONI MUNICIPALITY

### BUDGET DOCUMENTATION FOR THE 2017/2018 BUDGET YEAR

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## **1. MAYORS REPORT**

The 2017/2018 budget is presented in challenging times but against a background of a new strategic framework. This is a budget in which there is limited room for expansion, yet there are significant opportunities for change.

Umdoni is embarking on a new direction in the new financial year. New priorities have been identified and previous priorities have been further emphasised.

A substantial portion of the budget has been geared toward the rural and urban road network. The budget was essentially prepared around these main priorities. We have seen over the last few years the deterioration in the roads. In addition to the harsh and wet weather experienced on a regular basis, regular and planned maintenance was not adequately completed. This has further placed pressure on the road network. In light of this approximately 92% of the capital budget has been identified for the upgrade of both rural and urban roads.

The operational budget was prepared in light of the current economic climate as well historical performance of the municipality. Tariff increases were limited to below inflation rates at 5% whilst expenditures have increased in excess of 8%. Income was budgeted more realistically and reflects the municipality's ability to collect this revenue.

Expenditure was contained as far as possible. Service delivery items were given priority over funds whilst administrative expenditure was decreased. In an effort to cap the rising employee costs, a limited number of new posts were budgeted for whilst the rest were frozen.

A greater emphasis has been placed on the management of funds in order to ensure that they last the entire financial year and reduce the risk of unauthorised expenditure.

Umdoni municipality has refocused its priorities for the upcoming year. The budget presented shows our commitment to the community. The focal point of this budget will be on upgrading and maintaining the road network. Further, non-priority expenditure has been curtailed in order to invest more funds towards service delivery.

It is hoped that this budget will enable us to move toward meeting our strategic objectives and serve our community to the best of our abilities.

## **2. RESOLUTIONS**

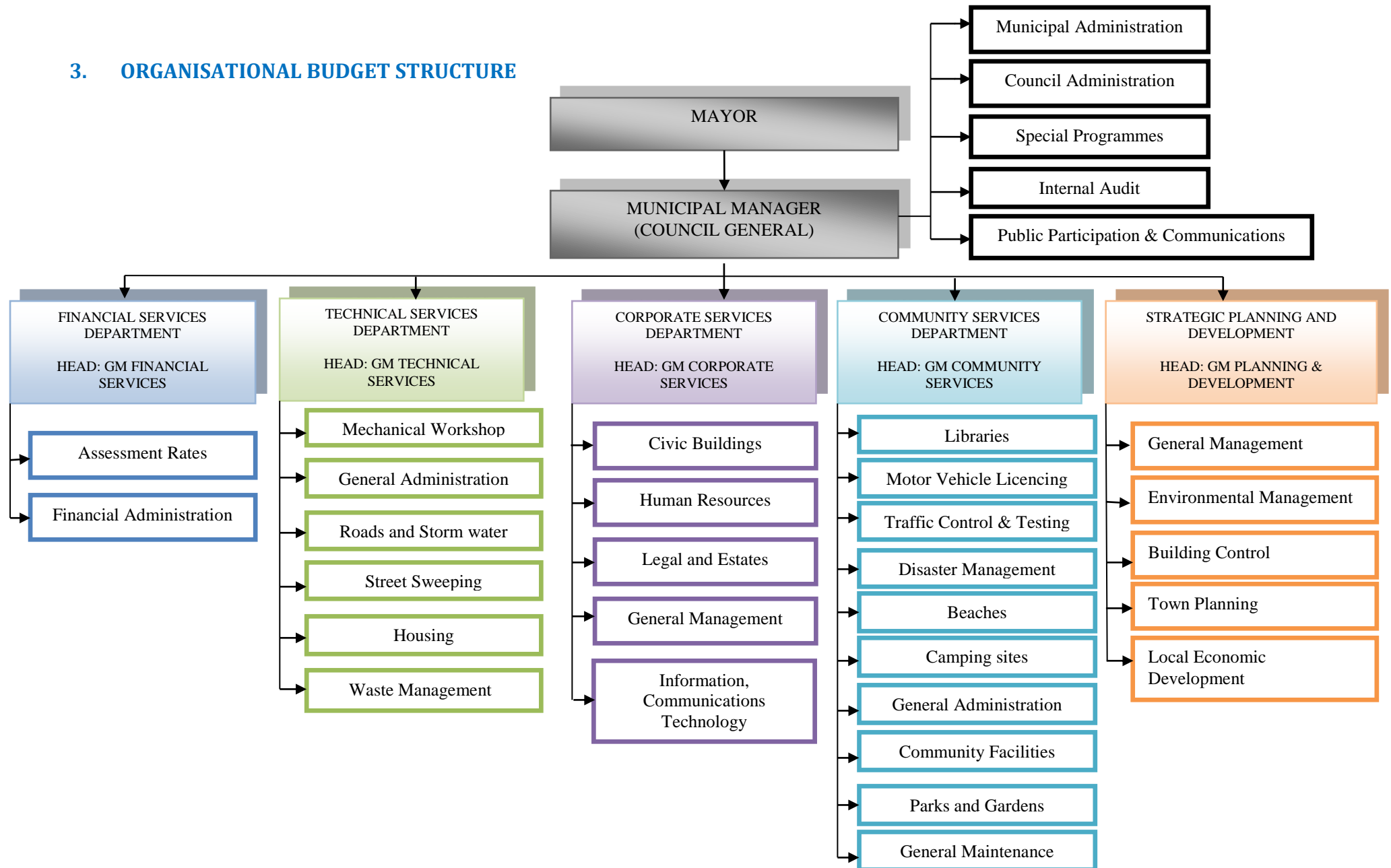
As required in terms of Section 16(1) of the Municipal Finance Management Act, No.56 of 2003, the Council of the municipality must approve an annual budget for the ensuing budget year before the commencement of that budget year.

A consultative process with members of the public and Council was held since the adoption of the draft budget. All comments received were considered and adjustments were effected accordingly.

The following resolutions are tabled for consideration by Council with regard to the 2017/2018 Budget:

- 1.1 Council has considered the comments from all stakeholders in the finalization of the budget
- 1.2 That the annual capital and operating budgets of the municipality for the financial year 2017/2018 be adopted as set out in the following schedules:
  - a) Budgeted Financial Performance Summary by Revenue Source and Expenditure Category for all Departments as reflected in Annexure 1;
  - b) Budgeted Financial Performance - revenue and expenditure by department as reflected in Annexure 2;
  - c) Budgeted Financial Performance - revenue and expenditure by municipal vote as reflected in Annexure 3;
  - d) Budgeted Financial Performance - revenue and expenditure by line item as reflected in Annexure 4;
  - e) Budgeted Capital Expenditure by vote, GFS classification and funding as reflected in Annexure 5; and
  - f) Budgeted Capital Expenditure by line item as reflected in Annexure 6
- 1.3 That the Tariff of Charges reflected in Annexure 7 is adopted for 2017/2018 financial year.
- 1.4 That the property rates randages calculated at a 5% increase and rebates, as reflected in the budget documents are adopted for the 2017/2018 financial year.
- 1.5 The A1 budget tables as presented be adopted

### 3. ORGANISATIONAL BUDGET STRUCTURE



#### 4. EXECUTIVE SUMMARY OF THE 2017/2018 BUDGET

##### 4.1 VISION, MISSION AND OBJECTIVES OF THE UMDONI MUNICIPALITY

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###### VISION

*“BY 2020 UMDONI WILL BE THE **JEWEL**  
OF THE SOUTH COAST.”*

###### MISSION STATEMENT

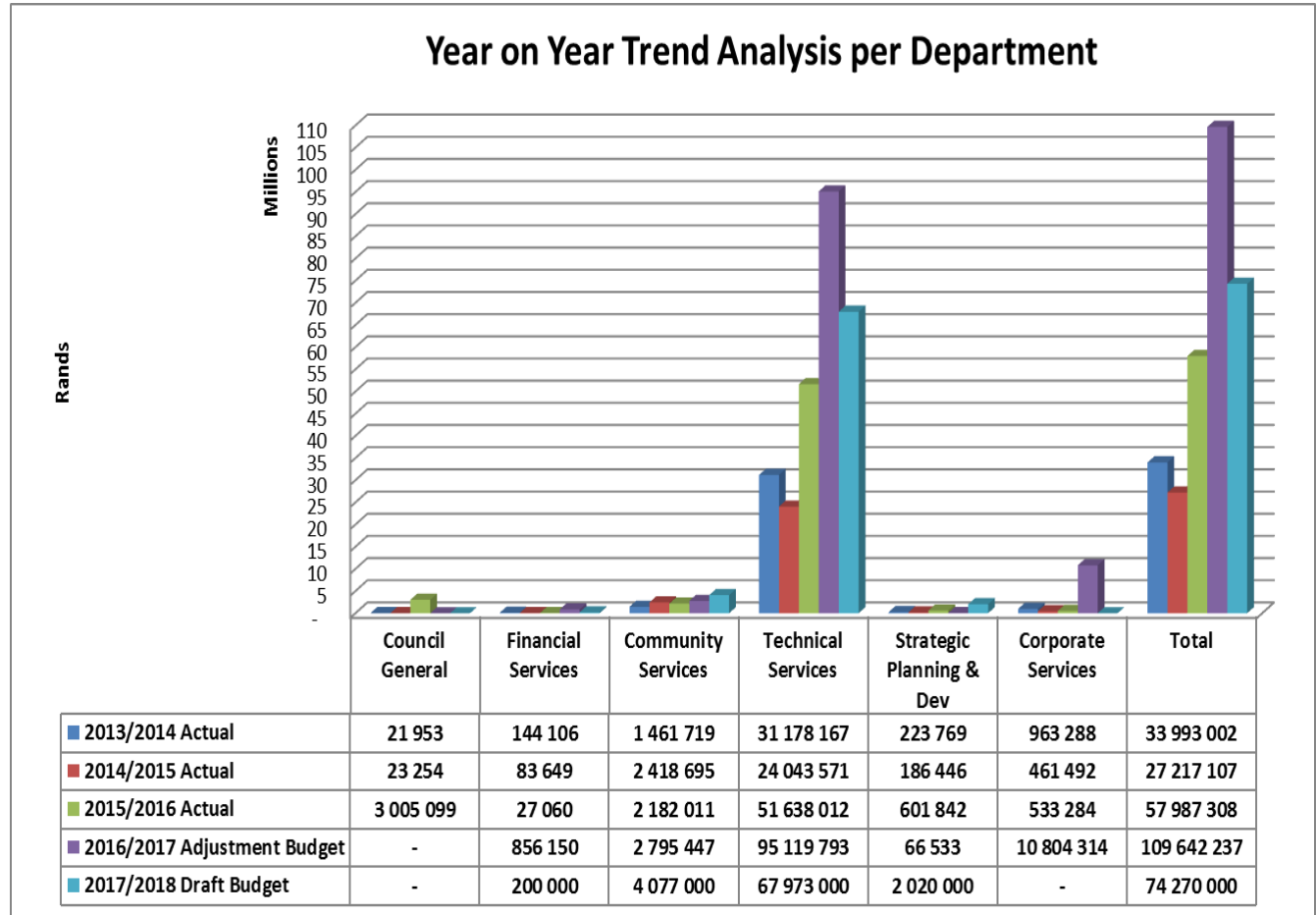
*“WORKING TOGETHER IN CONTRIBUTING TO **JOB**  
CREATION, **ECONOMIC VIABILITY** THROUGH SUSTAINED  
**LOCAL ECONOMIC DEVELOPMENT** TO ENSURE THE **WELL**  
BEING OF OUR COMMUNITY IN **ECO FRIENDLY**  
ENVIRONMENT.”*

###### PRINCIPALS OF UMDONI MUNICIPALITY

- **JOB CREATION**
- **ECONOMIC VIABILITY**
- **WELLBEING OF THE COMMUNITY**
- **ENVIRONMENTALLY FRIENDLY ENVIRONMENT**
- **LOCAL ECONOMIC DEVELOPMENT**

## 4.2 2017/2018 CAPITAL BUDGET OVERVIEW

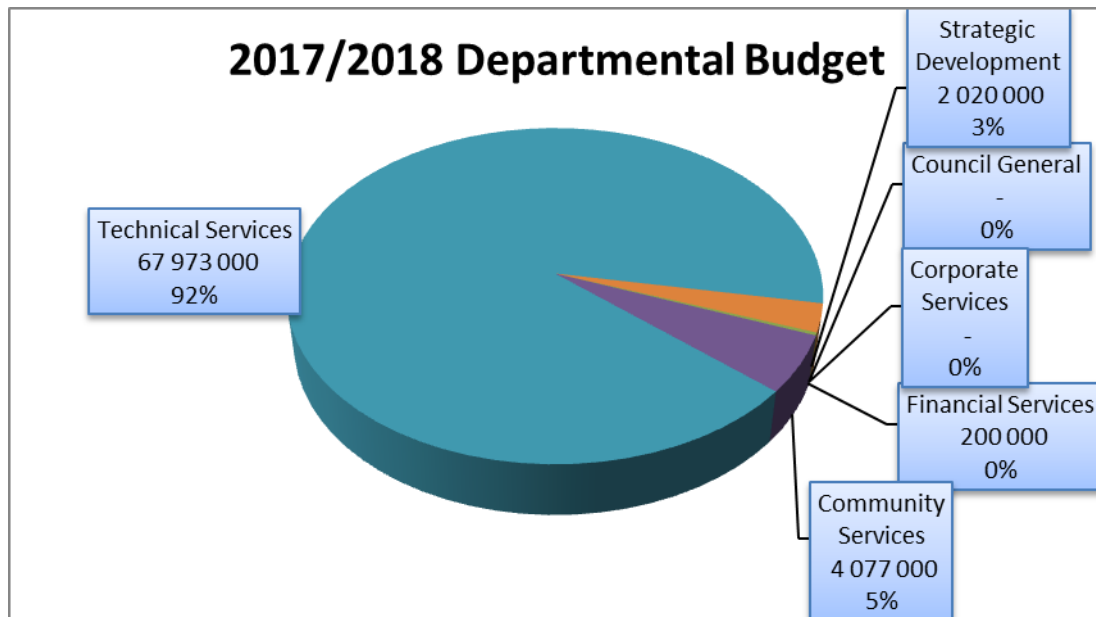
The 2017/2018 Capital Budget has been estimated at R 74,270,000. A graphical representation of the capital growth of the municipality can be portrayed as follows:



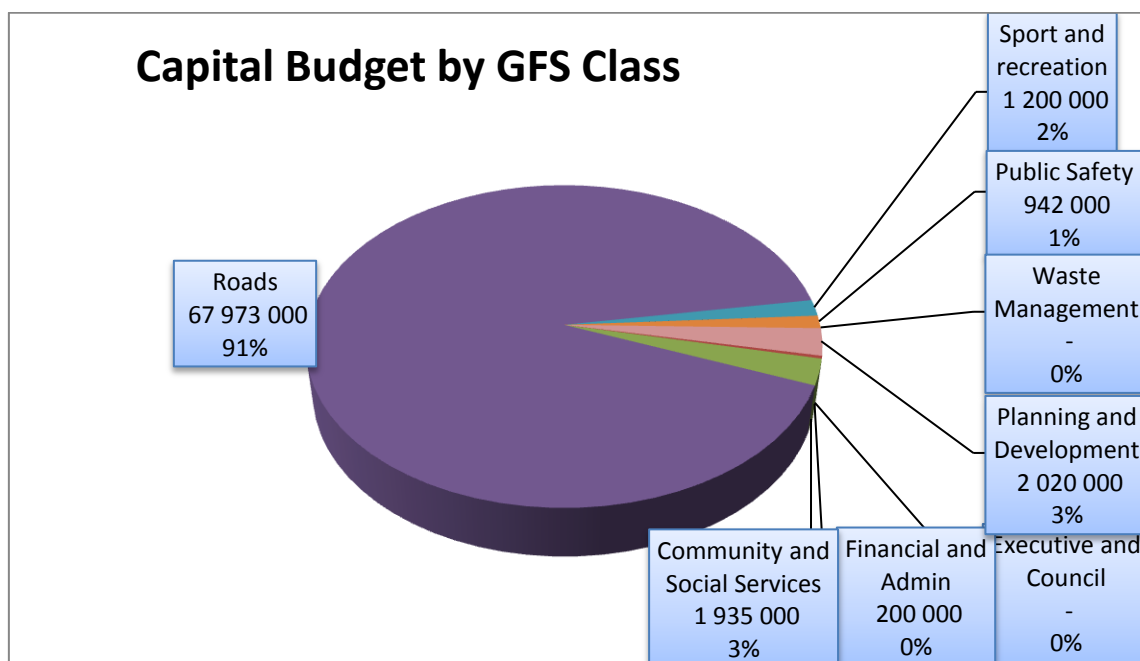
As evident from the above graph, it is clear that the capital budget has decreased from R 109,6 million in the adjustment budget to R 74,3 million for the upcoming financial year.

To this end a large proportion of the capital budget, approximately 92% is geared toward upgrading of rural as well as urban roads. R 31,2 million, funded from MIG, has been budgeted for upgrading of rural roads and R 14,8 million, funded internally, has been set aside for the rehabilitation of urban roads. An amount of R 22 million has also been budgeted for the upgrade to Scottburgh CBD funded from the COGTA grant allocation.

From the graph presented, it is clear that year on year the majority of Umdoni's Capital Budget is split between Community Services and Technical Services, however in the 2016/2017 financial year, Council took a significant portion of the capital budget which was attributable to the need for a new council chambers. This shows Umdoni's commitment to providing infrastructure for the community rather than spending administratively.



The capital budget for the 2017/2018 financial year is focused toward improving the lives of the communities, and therefore 97% of the capital budget has been targeted toward Technical Services and Community Services. The main projects in the capital budget is the upgrading of roads. In addition an amount of R 14,8 million has been budgeted for the rehabilitation of urban roads. This signifies Umdoni's commitment to maintenance on infrastructure. The greater part of other capital items are all geared towards service delivery.



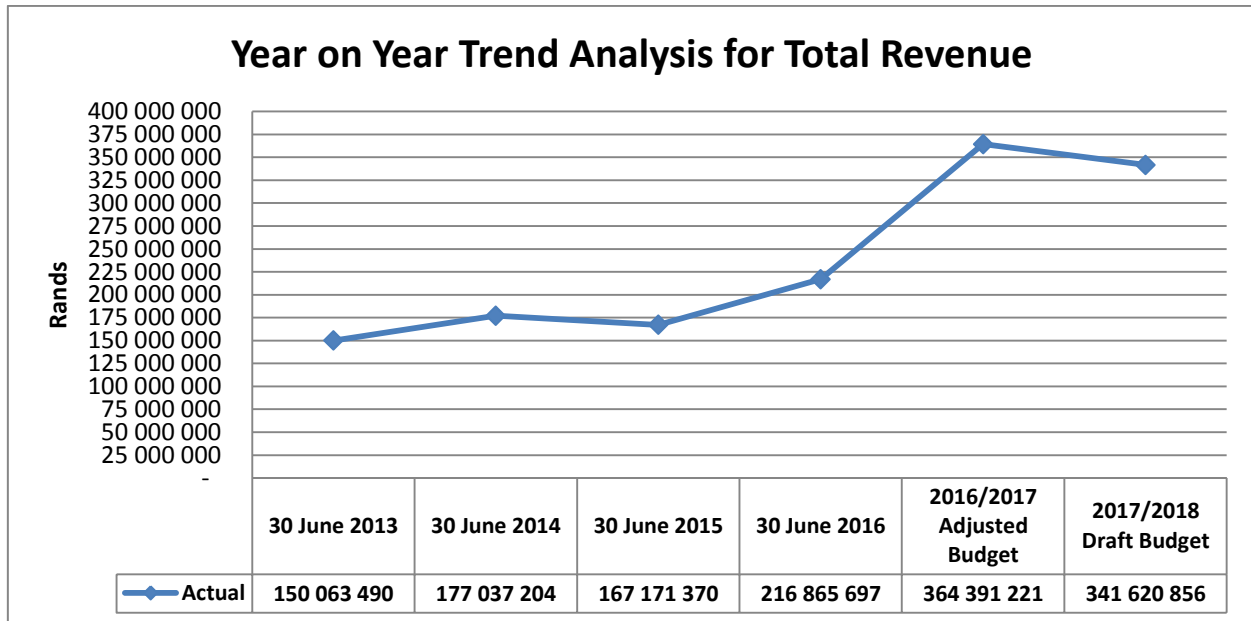
The above mentioned graph categorises the capital budget by GFS classification, with roads and stormwater receiving the largest allocation of 92%, Community and Social Services receiving 3%. This again highlights Umdoni Municipality's commitment to the community .



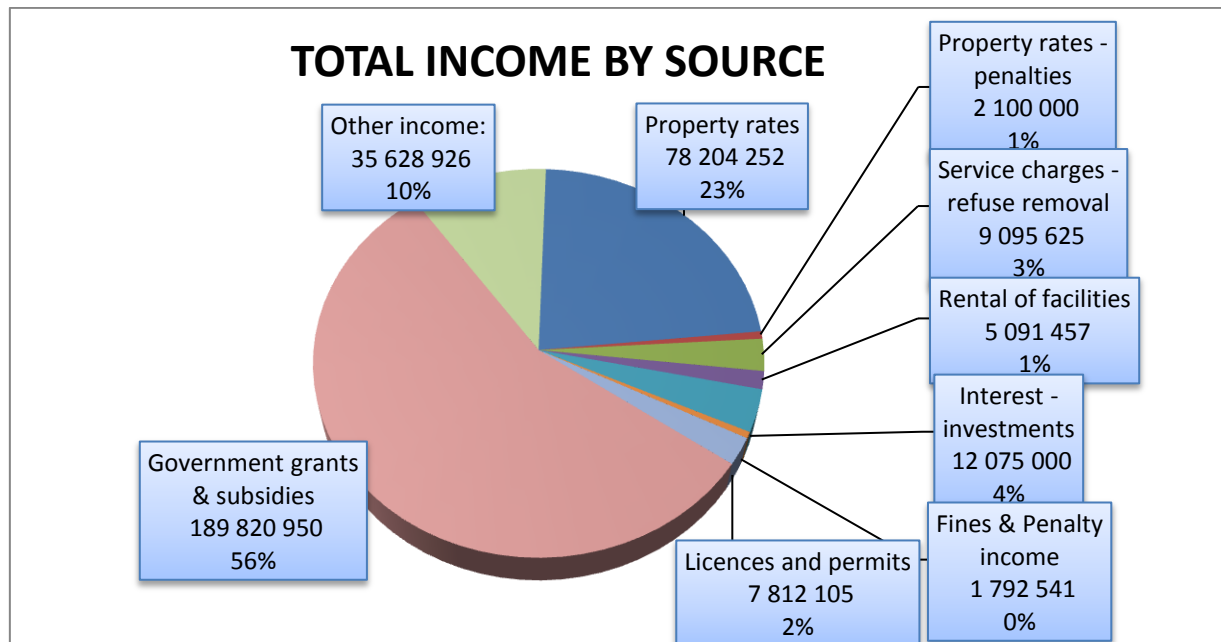
### 4.3 2017/2018 OPERATIONAL BUDGET OVERVIEW

#### OPERATING REVENUE

The estimated total income has been projected at R 341,62 million. An analysis of prior year trend levels of income is reflected below:



Income levels have been estimated at actual collection levels and the 17/18 budget indicates income levels which are realistic and attainable by the municipality. The impact of the global economic crisis as well as current inflation rates have been considered extensively during the establishment of these income levels, as a substantial amount of consumers will no longer be able to afford the level of increases experienced in the past.

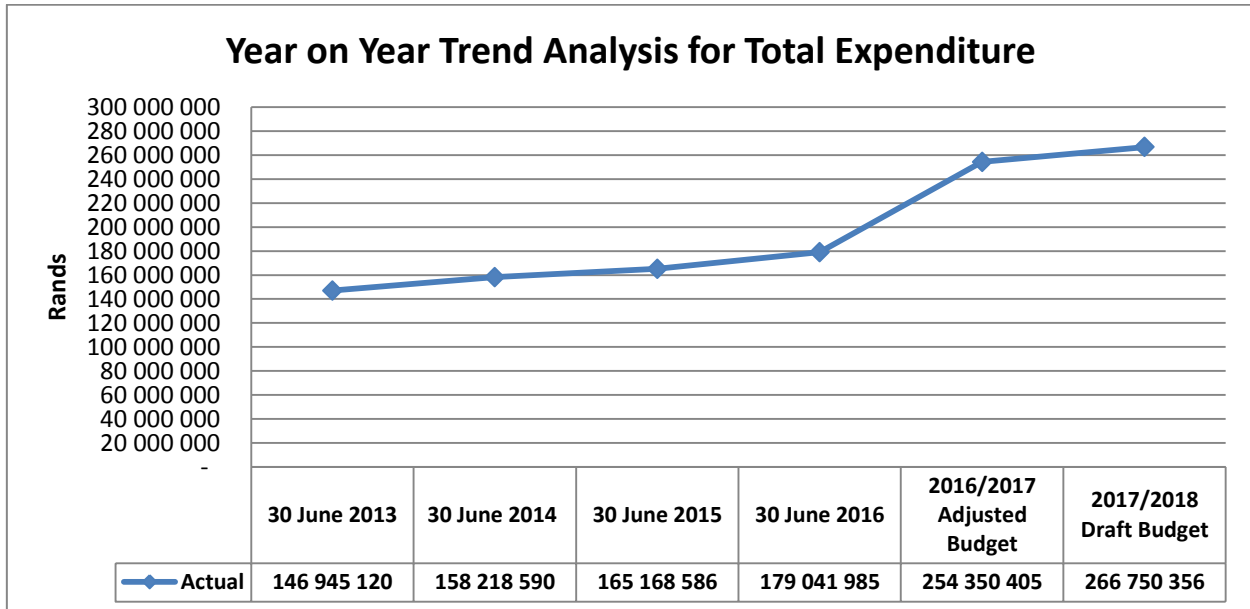


As indicated above, 23% of the income anticipated to be received by the municipality relates to property rates, second only to Government Grants which represent 56% of the estimated income. Included in the grants and subsidies are the equitable share allocation which has been calculated at R 113,6 million, followed by R 4,2 million allocated for the Finance Management Grant, as well as R 5,2 million from the Departments of Arts and Culture for library services and the remainder as non-cash recognition of capital grants in accordance with the GRAP standards. In addition R 1 million has been allocated for the EPWP grant.

Total Revenue has increased from the previous financial year mainly due to the increase in Government grants. Other notable increases are property rates which have increased by less than inflation forecast. Licenses and permit income has increased by R 372,000 and Fine income by R 85,359. Other income sources have increased marginally, however R 30 million of this is recognized as income realized from reserves.

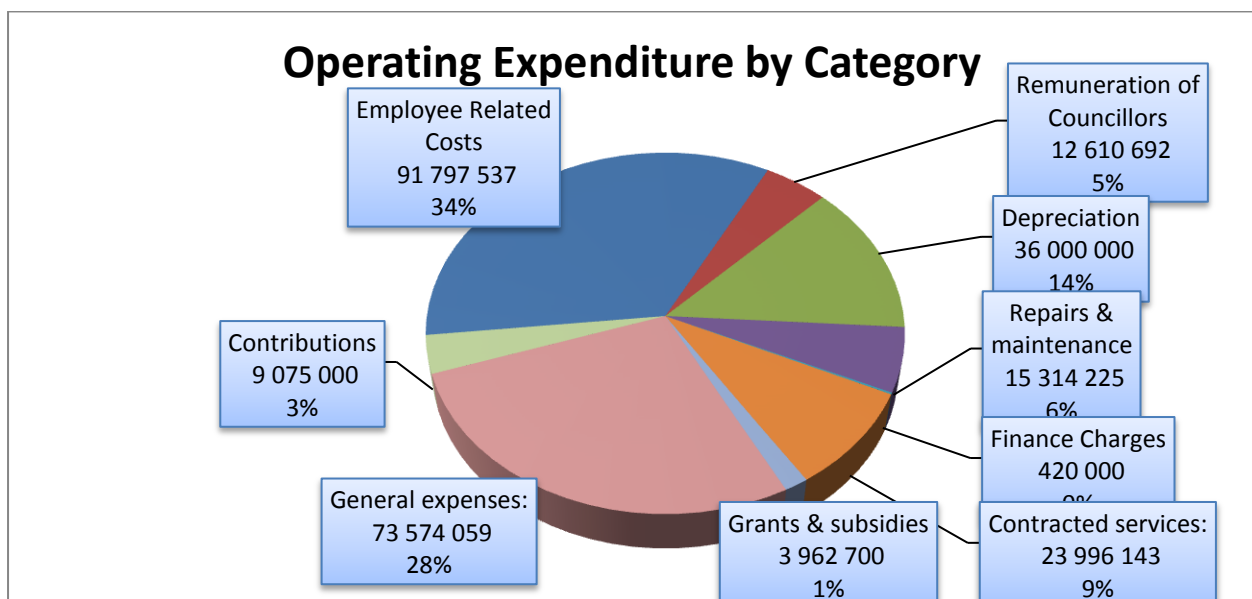
## OPERATING EXPENDITURE

The total operating expenditure has been estimated at R 262,55 million. The graph below reflects the trend of expenditure levels as follows:



Whilst our income base has been limited due to the current economic times, the day to day operational expenditure is increasing, which is attributable to inflationary increases and increased service delivery expectations. We therefore find ourselves in a situation where we have to spend the reduced income that we have on expenditure that matters, and will improve the lives of the communities that we serve. Therefore, this budget was prepared on the basis that administrative expenditure will be reduced, and that targeted expenditure, based on our strategic priorities, is enhanced.

Expenditure on the 2017/2018 budget has been allocated as follows:



The graph above shows that 34% of budgeted expenditure will be spent on Employee Related Costs. Salaries have been posing a huge problem for our Municipality in recent years. While income is being limited to an increase of 4-5%, employee costs have been increasing on average 6-9% per year. The municipality is embarking on a drive in order to curtail Employee costs in an effective manner i.e. without compromising Service Delivery and avoiding costly retrenchments.

In addition to employee costs, other expenditure continues to increase at a rapid rate and we find that in order to provide the same level of service to the community, administrative costs have been drastically reduced. In line with the cost containment measures and numerous circulars, various expenditure items have been reduced such as travelling, advertising, printing and stationery and consultants. While the figures displayed may show an increase in expenditure budgets, this increase is minimal as we must acknowledge that Umdoni has absorbed the, previously known as, Vulamehlo Municipality and are administering all matters in the new jurisdiction without incurring major administration cost increases.

The repairs and maintenance budget forms 6% of budgeted expenditure for the year. Although the NT circular recommends 8% of PPE to be budgeted for repairs and maintenance, Umdoni has budgeted approximately 3%. The reasons for this are twofold. First and foremost; the municipality cannot afford to budget the recommended 8%. Further, approximately R 14,8 million has been budgeted under the capital budget to upgrade roads and R 22 million for the upgrade of Scottburgh CBD due to the nature of the work to be done. When we take into account the latter two budgets, Repairs and maintenance attributes approximately 10% of PPE which is above the National Treasury requirement. This is in line with what the municipality can afford as well as the capacity to carry out the necessary works.

Employee costs were budgeted at an estimated increase of 7.5% based on the collective agreement in place. As explained above measures were put in place to curb the growing employee related costs. Councilor allowances have been set at the upper limit provided by SALGA.

An amount of approximately R 3,5 million has been allocated towards free basic services which include refuse and electricity (including alternate electricity).

## **5. 2017/2018 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK TABLES**

Umdoni Municipality has tabled the 2017/2018 annual budget in the format that is in accordance with the budget regulations, where possible, as follows:

- a) Budgeted Financial Performance Summary by Revenue Source and Expenditure Category for all Departments as reflected in Annexure 1;
- b) Budgeted Financial Performance - revenue and expenditure by department as reflected in Annexure 2;
- c) Budgeted Financial Performance - revenue and expenditure by municipal vote as reflected in Annexure 3;
- d) Budgeted Financial Performance - revenue and expenditure by line item as reflected in Annexure 4;
- e) Budgeted Capital Expenditure by vote, GFS classification and funding as reflected in Annexure 5; and
- f) Budgeted Capital Expenditure by line item as reflected in Annexure 6
- g) A1 Schedule

The above, and all other budget related documents shall be submitted to National Treasury.

## **6. TARIFF OF CHARGES – 2017/2018 FINANCIAL YEAR**

The tariff of charges for the upcoming financial year have been reviewed on an individual basis by all respective departments and have been open to comments by both Councilors and Officials. The revised tariff of charges has been included in Annexure 7 for consideration by the public. In certain instances tariffs have not increased. Where increases were effected, these were, as far as possible limited to 5%.

## **7. PROPERTY RATES RANDAGES AND REBATES – 2017/2018 FINANCIAL YEAR**

Umdoni Municipality implemented the Municipal Property Rates Act for the first time for the 08/09 financial year. This resulted in a revaluation of all properties within the Umdoni area, and was aligned to market related values. With this valuation, came the implementation of a new rates policy, and applicable tariffs, rebates and relief to the poor.

The current economic situation has further increased the financial burden on households throughout the country and has contributed to the struggle of day to day living and job security and sustainability. In addition to this, with the latest amendments to the MPRA, municipalities need to phase out rating for Public Service Infrastructure over 4 years, a loss of substantial income for the municipality.

As a sphere of government, we are sensitive to the crisis that we face, and therefore we have accounted for approximately 5% increase in the rates randages for the upcoming financial year. This 5% increase will assist in addressing the inflationary pressures experienced as well as assist in the municipality being able to contribute more effectively to the enhancement of service delivery. Therefore, for 2017/2018 financial year, we propose the rates randages and rebates as indicated below:

Category	17/18 Rates Randage	16/17 Rates Randage
Residential	R 0.00994	R 0.00947
Commercial / Business	R 0.01330	R 0.01267
Industrial / Mining & Quarries	R 0.01330	R 0.01267
Agricultural Farms and Smallholdings	R 0.00249	R 0.00237
State Owned Property	To be rated on usage	To be rated on usage
Public Service Infrastructure	R 0.00249	R 0.00237
Vacant Other	R 0.02503	R 0.02384

The rebates applied for the 2017/2018 financial year is proposed to remain the same as the 2016/2017 financial year:

	R
Residential ( R 60,000 elective and 15,000 legislated)	75,000.00
Vacant Other	15,000.00
Disabled Persons/Pensioners/Indigent (Incl R 75000 above)	370,000.00
Medium to High Density level developments (Sectional Titles and Share blocks) 4% on rates due for the financial year	
Annual payments on or before a date to be determined - 2.5% of the net rates raised	

## 8. OVERVIEW OF THE ANNUAL BUDGET PROCESS

The budget process is guided by various legislative frameworks and regulations, including the Local Government Municipal Finance Management, No, 56 of 2003, the Municipal Systems Act, 2000 and the municipal Budget and Reporting Regulations

Adherence to these guidelines and regulations are imperative during the budget preparation to ensure an effective, credible and sustainable budget. The review of past practices and performance is further necessary, to identify areas of weakness which can be addressed, as well as maintain the level of performance in areas where this has been achieved.

The process embarked upon for the preparation of the 2017/2018 budget can be illustrated below:



## **9. OVERVIEW OF THE ALIGNMENT OF THE BUDGET TO THE INTEGRATED DEVELOPMENT PLAN**

The alignment of the budget to the integrated development plan is crucial in order to ensure the effectiveness of any budget. Various internal consultative sessions were held with Councilors and officials in order to determine the strategic priorities for the municipality in the upcoming financial year. Both the integrated development plan and the budget has incorporated these priorities and action plans, and therefore assisted in the alignment of both the budget and the integrated development plan.

## **10. OVERVIEW OF THE BUDGET RELATED POLICIES**

The budget related policies are currently under review and any comments or suggestions received during the public participation process will be considered.

## **11. BUDGETING ASSUMPTIONS**

The budgeting assumptions that underpin the 2017/2018 budget preparation are as follows:

### **Revenue**

- All revenue levels were based on current and past year actual trends, and therefore resulted in a realistic revenue base and kept in line with inflation as far as possible;
- Property rates and refuse removal tariffs were increased by approximately 5% respectively;
- All other income has increased minimally in order to maintain affordability and credibility

### **Expenditure**

- Expenditure levels were kept as low as possible whilst prioritizing service delivery
- The following areas were targeted in terms expenditure:
  - Councilors Allowances – this has been set at the upper limit provided by SALGA.
  - Employee related costs
  - General expenses
  - Repairs and maintenance
- Employee costs were budgeted at an estimated increase of 7.5% based on the collective agreement in place. As explained above measures were put in place to curb the growing employee related costs.
- Administrative costs were reduced.





## 12. MUNICIPAL MANAGER'S QUALITY CERTIFICATION

I, \_\_\_\_\_, Municipal Manager of UMDONI MUNICIPALITY, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act, No.56 of 2003 and, to the extent as indicated in the budget documents, the regulations made under this Act, and that the annual budget and supporting documentation are consistent with the Integrated Development Plan of the Municipality.

PRINT NAME: \_\_\_\_\_.

MUNICIPAL MANAGER OF: UMDONI MUNICIPALITY\_\_\_\_\_.

SIGNATURE: \_\_\_\_\_

DATE: 31 MAY 2017\_\_\_\_\_.